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Fuel Focus

Understanding Gasoline Markets in Canada and Economic Drivers Influencing Prices

Volume 7, Issue 7

April 20, 2012

Canada

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National Overview

Retail Gasoline Prices Up Moderately by 0.4 Cent per Litre from Last Week

The Canadian average retail gasoline price registered at $1.37 per litre for the week ending April 17, 2012, up slightly by 0.4 cent per litre from the previous week. Prices are 3 cents per litre higher than last year.

Diesel fuel prices decreased by 0.4 cent per litre from last week to $1.30 per litre, up by 1 cent per litre from this time last year. Furnace oil prices declined by 1 cent per litre to $1.20 per litre and are 13 cents per litre higher than a year ago.

The rise in retail gasoline prices is primarily driven by recent increases in wholesale gasoline prices, which in turn reflects changes in crude oil prices. Crude oil prices reflect market conditions, namely the market participants' assessments of the future balance between supply and demand. Demand for oil products fell following the economic downturn in 2008 and resumed in 2009, reaching 88 million barrels per day (14 million cubic metres per day) in 2011 with most of the growth driven by developing countries. Overall continued demand growth and concerns over the global supply of crude oil due to geopolitical concerns in the Middle East continue to put upward pressure on prices.

Figure 1: Crude Oil and Regular Gasoline Price Comparison (National Average)

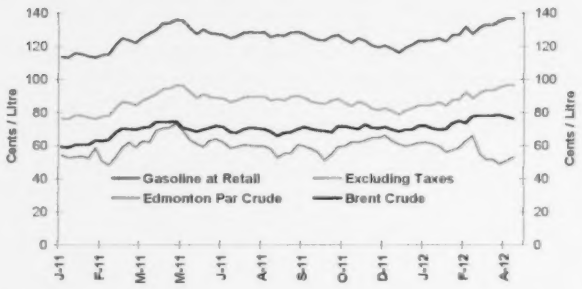
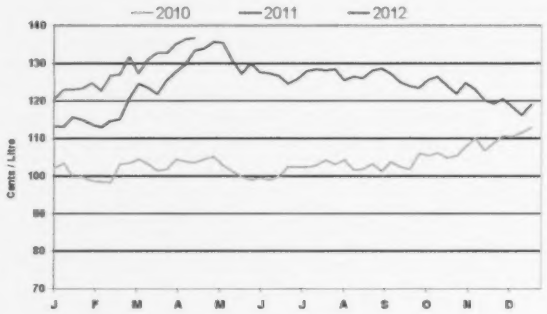


Figure 2: Weekly Regular Gasoline Prices



Changes in Fuel Prices

	Week of:	Change from:	
¢/L	2012-04-17	Previous Week	Last Year
Gasoline	136.7	+0.4	+3.3
Diesel	129.8	-0.4	+1.3
Furnace Oil	120.4	-1.1	+13.0

Source: NRCan

Recent Developments

- **Domestic Crude Oil Production Up 8%**: Production of crude oil and equivalent hydrocarbons increased 8% to 15.9 million cubic metres in January 2012 compared to the same month a year earlier. Exports increased 16% to 12 million cubic metres. About 79% of Canada's total domestic production went to the export market compared to 73% a year earlier. Imports fell 1% to 3.3 million cubic metres. (Statistics Canada, The Daily, http://www.statcan.gc.ca/daily-quotidien/120411/dq120411c-eng.htm)
- **Cash Only Company to Operate on PEI**: In February 2012, the Island Regulatory and Appeals Commission granted a license to Feasible Fuels, who is planning to offer low volume heating oil deliveries to some parts of the island. Feasible Fuels only has one truck and plans to deliver amounts as low as 100 litres on a cash basis. The company will service a specific segment of the population who for one reason or another find it difficult to cope with the minimum delivery policies used by most companies. (Source: The Canadian Oil Heat Association, March 2012)

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Retail Gasoline Overview

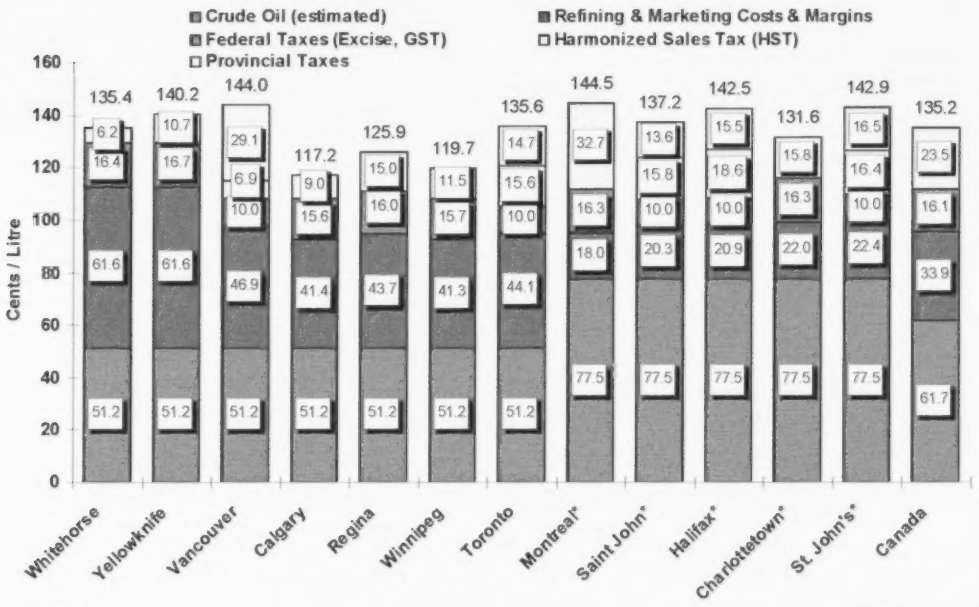
The average Canadian pump price in selected cities for the **four-week average** ending April 17, 2012, was $1.35 per litre—an increase of 2 cents per litre from the last report on April 10, 2012. This is a 6 cent-per-litre increase from the same period in 2011.

The **four-week average** crude oil price component of gasoline registered at 62 cents per litre, down by 1 cent per litre from two weeks ago. The crude oil price component of gasoline is 7 cents per litre lower than at the same time last year.

The four-week average refining and marketing costs and margins increased by 3 cents per litre to 34 cents per litre of the total pump price from two weeks ago.

The federal and provincial tax component of the pump price breakdown for the selected cities accounted for a total of 39 cents per litre, an increase of 0.9 cent per litre from the same time last year.

Figure 3: Regular Gasoline Pump Prices in Selected Cities
Four-Week Average (March 27 to April 17, 2012)



Source: NRCan

** Regulated Markets*

Refineries Closing in the Western World

With the announcement of the planned Sunoco closure in the Philadelphia area, half the refining capacity on the populous U.S. East Coast is set to disappear. ConocoPhillips is trying to sell a refinery in Pennsylvania, idle since last year. On May 1, it will spin off its refining business. According to the International Energy Agency, more than 3 million barrels of daily refinery capacity have closed in western countries since the financial crisis in 2008. Emerging economies have meanwhile added 4.2 million barrels per day in capacity, with another 1.8 million barrels per day coming this year.

Meanwhile, India's Reliance Industries, with a daily capacity of 1.3 million barrels per day, is both the world's largest single refinery and an important source of gasoline and diesel fuel for the Asian markets. Rather than serve India's growing market, the majority of the refinery's output is shipped abroad, in part because the more recently built half of the facility is an export-only special economic zone, while its coastal location allows for easy access to oil supply. With the closing of U.S. refineries, the East Coast will become more dependent on imported gasoline. According to the Energy Information Administration, one of the most probable incremental suppliers is India.

Source: Financial Times, http://www.ft.com/intl/cms/s/0/256f583e-7a83-11e1-8ae6-00144feab49a.html#axzz1rk5thfUc

Wholesale Gasoline Prices

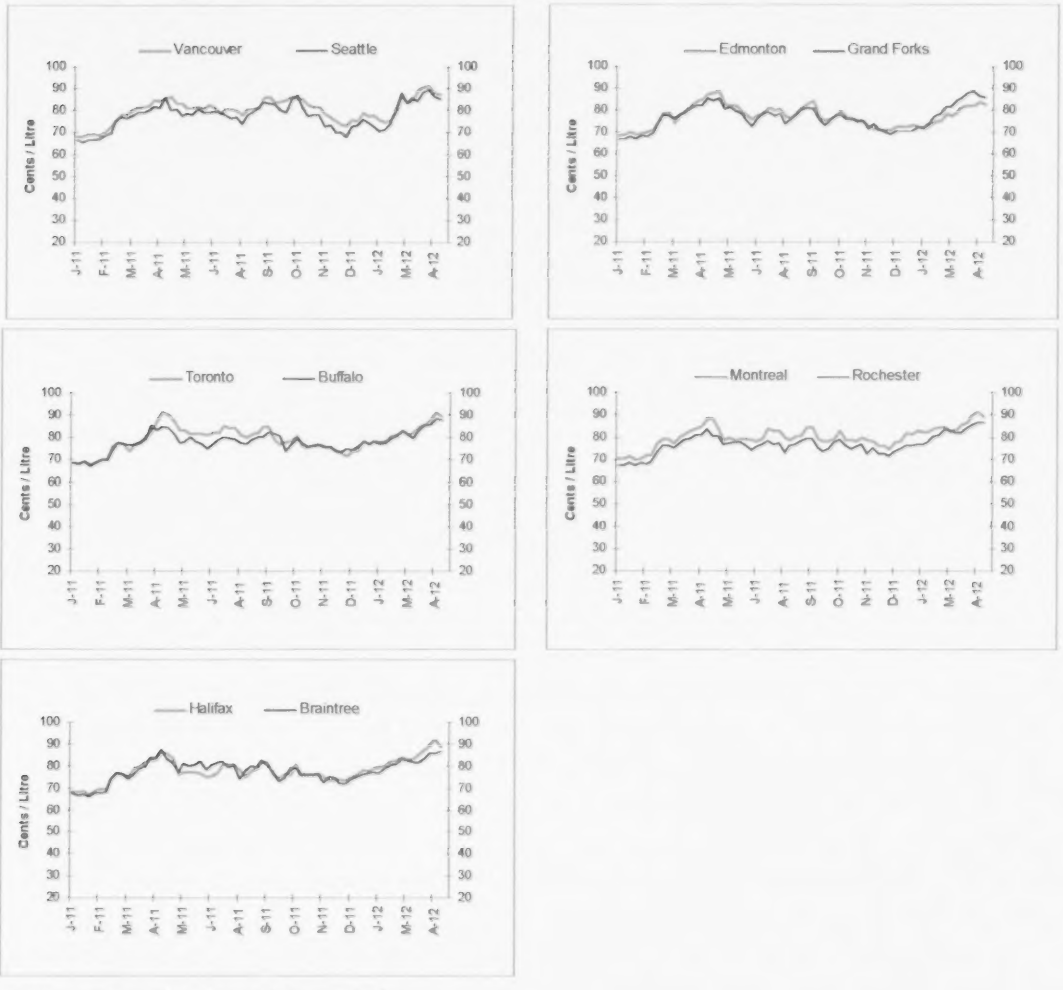
Compared to the previous week, **wholesale gasoline prices** decreased in most selected centres for the week of **April 12, 2012**. Overall, price changes ranged from a drop of 3 cents per litre to an increase of 1 cent per litre.

Changes in wholesale gasoline prices in the Eastern markets of both Canada and the United States, compared to the previous week, ranged from a decline of 3 cents per litre to an increase of 1 cent per litre, ending the period in the 86 to 90 cent-per-litre range.

In the Western centres, prices decreased by nearly 1 cent per litre in all centres, ending at 83 to 88 cents per litre.

Overall, wholesale prices in most selected centres are above last year's level with increases ranging from 3 to 7 cents per litre, compared to the same period last year.

Figure 4: Wholesale Gasoline Prices
Rack Terminal Prices for Selected Canadian and American Cities Ending April 12, 2012
(Can ¢/L)



Sources: NRCan, Bloomberg Oil Buyers Guide

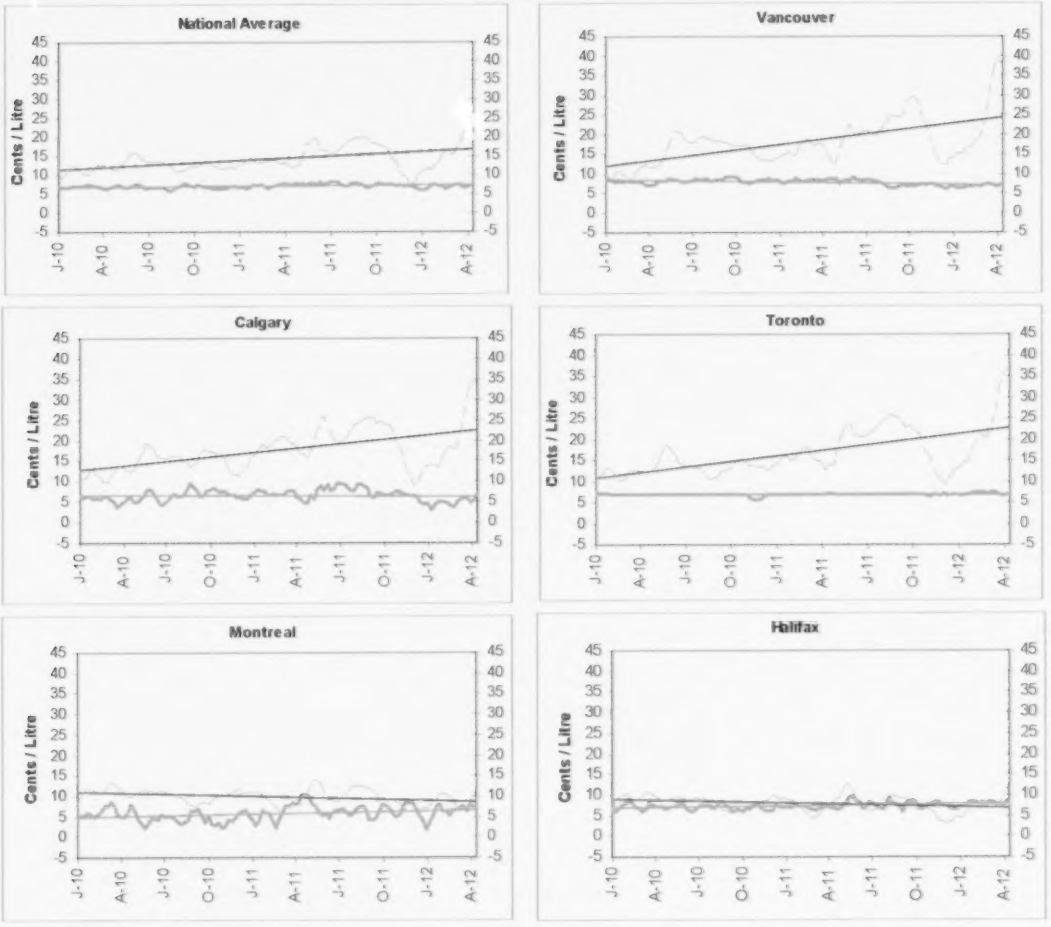
Gasoline Refining and Marketing Margins

Four-week rolling averages are used for the refining and marketing margins for gasoline shown in Figure 5 for the period ending April 17, 2012.

Refining margins have been showing some gains recently, which is indicative of a tightening in supplies. These margins have increased in all selected centres, indicating that wholesale gasoline prices have been increasing more promptly than crude oil prices.

Marketing margins continue to fluctuate in specific centres as these movements are influenced by local market conditions. Nationally, the trend line indicates that marketing margins remain around 7.5 cents per litre. Marketing margins in the five centres below ranged from a low of 7 cents per litre to a high of nearly 9 cents per litre.

Figure 5: Gasoline Refining and Marketing Margins
Four-Week Rolling Average Ending April 17, 2012
------- Refining Margin ——— Marketing Margin



Source: NRCan

Crude Oil Overview

Brent and WTI Crude Oil Prices Declined for a Second Week

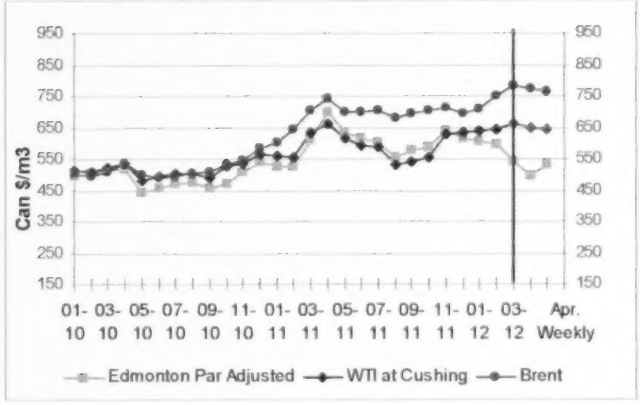
For the week ending April 13, 2012, crude oil prices averaged between $532 and $760/m³ ($US85 to $US121 per barrel). This is a decrease of $4 to $17/m³ (US$1 to US$3 barrel) for WTI and Brent, respectively, from the previous week. Edmonton Par prices recovered to nearly $38/m³ (US$6) from the previous week.

World crude oil prices were partly moderated on weaker demand. U.S. crude oil inventories continue to increase, reaching the upper level of the previous five-year average range, helping to moderate the price increase.

Overall, world crude oil prices continue to feel the impact of uncertainties with respect to the flow of oil supply from oil-producing countries in the Middle East and North Africa. At the same time, according to the U.S. Energy Information Administration, supply from countries outside of the Organization of Petroleum Exporting Countries (OPEC) has had some setbacks recently, including production drops in South Sudan, Syria, Yemen, and the North Sea.

Looking ahead, the decline rate for existing crude oil production, both inside and outside of OPEC member countries, and the future prospect of oil disruption flow to the marketplace are key factors of the future supply situation which could put upward pressure on oil prices.

Figure 6: Crude Oil Price Comparisons



Changes in Crude Oil Prices

Crude Oil Types	Week Ending: 2012-04-13		Change From:			
			Previous Week		Last Year	
	$Can/m³	$US/bbl	$Can/m³	$US/bbl	$Can/m³	$US/bbl
Edmonton Par	532.17	84.90	+37.70	+5.73	-159.37	-29.50
WTI	642.66	102.53	-3.77	-0.98	-11.46	-5.68
Brent	759.78	121.22	-14.93	-2.83	+17.98	-1.49

Source: NRCan

World Oil Reserve Growth

One of the benefits of higher crude oil prices is that some of the more expensive oil sources in more remote locations become economical to develop. The world's proven oil reserves have more than doubled in the last 32 years. Reserves have increased in all but one of the last 21 years.

This growth has been the result of new finds, the inclusion of oil sands reserves in 2003 and of Venezuela's extra heavy crude oil reserves in 2011, and continued development and application of new drilling technology and enhanced recovery methods. Historically, only 20-30% of the oil in a well was recoverable.

With today's technology, many wells now recover 40%, 50% or more of the oil initially in place, and that incremental oil continues to add to proven reserves.

Source: Natural Resources Canada